

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03 NSC-10

PA-03 PRS-01 SS-15 USIA-15 CEA-02 STR-08 IO-13 RSR-01

/180 W

----- 122754

R 021855Z AUG 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6648

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY BERN

AMEMBASSY VIENNA

USMISSION BERLIN

UNCLAS SECTION 01 OF 02 BONN 11056

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GERMAN PRESS COMMENT ON C-20

1. BEGIN SUMMARY: THE GERMAN QUALITY PRESS TODAY
AND YESTERDAY HAS REPORTED ON THE OUTCOME
OF THE C-20 MEETING IN LOW KEY AND MAINLY ON INSIDE
PAGES. GERMAN PRESS REPORTS RELY HEAVILY ON THE PRESS
CONFERENCE FINANCE MINISTER SCHMIDT GAVE IN WASHINGTON.
HEADLINES AND THE LITTLE EDITORIAL COMMENT THERE HAS
BEEN SO FAR REFLECT SOME SKEPTICISM REGARDING THE
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OPTIMISTIC REPORT BY SCHMIDT, BUT ALL PAPERS AGREE

THAT SIGNIFICANT PROGRESS WAS MADE, THAT THE DIFFERENCES BETWEEN THE US AND EUROPE HAVE BEEN NARROWED AND THAT THE GENERAL FRAMEWORK OF A REFORMED INTERNATIONAL MONETARY SYSTEM IS NOW BEGINNING TO TAKE SHAPE. END SUMMARY

2. THE FRANKFURTER ALLGEMEINE (FAZ) YESTERDAY STRESSED THE CONTRIBUTION TO THE OUTCOME OF THE CONFERENCE MADE BY THE MORE FLEXIBLE POSITION OF SECRETARY SHULTZ ON AUTOMATIC ADJUSTMENT PRESSURE AND GISCARD'S SURPRISING AGREEMENT TO NEGATIVE PENALTY INTEREST CHARGES FOR CHRONIC SURPLUS COUNTRIES. THE PAPER COMMENTS THAT GISCARD'S CONCESSION WAS RELATIVELY EASY SINCE FRANCE ITSELF DOES NOT EXPECT TO BECOME ITSELF A SURPLUS COUNTRY.

3. TODAY THE FRANKFURTER ALLGEMEINE STRESSES THAT AGREEMENT HAS BEEN REACHED IN PRINCIPLE BETWEEN THE US AND EUROPE CONCERNING THE INTER-CONNECTED ISSUES OF ADJUSTMENT PROCESS, CONVERTIBILITY AND ASSET SETTLEMENT. AUTOMATIC INDICATORS, AMONG WHICH A CHANGE IN RESERVES WILL BE A VERY IMPORTANT ONE, WILL TRIGGER INTENSIVE CONSULTATIONS WHICH CAN RESULT IN SANCTIONS AGAINST THOSE WHO BREAK THE RULES. ACCORDING TO THE FAZ AGREEMENT ALSO SEEMS TO HAVE BEEN REACHED IN PRINCIPLE ON A MULTI-CURRENCY INTERVENTION SYSTEM SIMILAR TO THAT GOVERNING THE EC SNAKE WITH QUICK AND STRICT CONVERSION OF FOREIGN CURRENCY BALANCES BETWEEN INDUSTRIAL COUNTRIES, BUT LOOSER RULES FOR LDC'S.

4. THE FAZ REPORTS THAT THE FUTURE ROLE OF GOLD DOES NOT YET SEEM TO BE AGREED. THE GERMAN SIDE BELIEVES THAT CENTRAL BANKS SHOULD BE ALLOWED TO FREELY BUY AND SELL GOLD AND POSSIBLY SHOULD ALSO BE ALLOWED TO NEGOTIATE BETWEEN THEMSELVES REGARDING THE PRICE OF GOLD SALES FROM ONE CENTRAL BANK TO ANOTHER. THE FAZ ALSO REPORTS THAT NO AGREEMENT HAS BEEN REACHED ON THE "LINK" AND THAT ACCORDING TO EMMINGER THIS HIGHLY POLITICAL QUESTION WILL ONLY UNCLASSIFIED

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BE SETTLED AT THE LAST MINUTE.

5. THE FAZ REPORTS THAT FINANCE MINISTER SCHMIDT BELIEVES THAT LEGAL DRAFTING ON THE INTERNATIONAL MONETARY REFORM MIGHT START IN EARLY SUMMER OF 1974 AND THE RATIFICATION PROCESS COULD COMMENCE AT THE END OF THAT YEAR. THE FAZ ALSO INDICATES THAT UNDER SECRETARY VOLCKER HAS CAUTIONED THAT

FINAL AGREEMENT ON ANY ONE OF THE ASPECTS
OF REFORM COULD ONLY BE REACHED WHEN THE WHOLE
PACKAGE HAS BEEN AGREED.

6. DIE WELT YESTERDAY HEADLINED ITS STORY "SALE
OF MONETARY GOLD ON THE FREE MARKET?" AND REPORTS
THAT PRELIMINARY AGREEMENT TO THIS EFFECT HAS BEEN
REACHED AMONG THE FORMER GOLD POOL COUNTRIES WITH
FINAL AGREEMENT LIKELY TO BE REACHED IN NAIROBI.
THE PAPER CONTINUES THAT ESSENTIAL POINTS IN THE
INTERNATIONAL MONETARY REFORM REMAIN DISAGREED
INCLUDING HOW TO STERILIZE THE DOLLAR OVERHANG,

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DEPT PASS TREASURY

HOW TO CONTROL FUTURE CREATION OF INTERNATIONAL
LIQUIDITY, HOW TO CONTROL SHORT-TERM CAPITAL MOVEMENTS
AND THE LINK BETWEEN SDR'S AND AID.

7. TODAY THE WELT HEADLINES ITS STORY "DISCUSSION
CONCERNING THE INTERNATIONAL MONETARY SYSTEM HAS MADE
SOME PROGRESS" AND REPORTS ON FINANCE MINISTER
SCHMIDT'S PRESS CONFERENCE AND ACCEPTANCE BY THE C-20
OF THE GERMAN COMPROMISE PROPOSAL REGARDING THE ADJUST-
MENT PROCESS. IT DESCRIBES THE PROPOSAL IN MORE
DETAIL, BUT ALONG THE SAME GENERAL LINES AS THE FAZ
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AND COMMENTS THAT DESPITE THE ELIMINATION OF
AUTOMATICITY, THE US HAS REACHED ITS GOAL THAT THERE
WILL BE EFFECTIVE PRESSURE ON SURPLUS COUNTRIES TO
ADJUST. DIE WELT REPORTS, CONTRARY TO THE FAZ,
THAT THE C-20 HAS NOT YET REACHED AGREEMENT IN PRINCIPLE
CONCERNING THE GERMAN PROPOSAL ON CONVERTIBILITY AND
MULTI-CURRENCY INTERVENTION. DISCUSSION ON THIS POINT
IS CONTINUING.

8. ACCORDING TO THE WELT, FINANCE MINISTER SCHMIDT
ALSO INDICATED THAT NEW BODY WITHIN THE IMF SIMILAR
TO THE C-20 WHICH WILL MAKE THE DECISIONS CONCERNING
THE CONSULTATIONS AND EXAMINATIONS IN THE ADJUSTMENT
PROCESS. SCHMIDT LEFT OPEN WHETHER THE REFORM WOULD
BE INCORPORATED IN A COMPLETELY NEW AGREEMENT OR IN
AMENDMENTS TO THE PRESENT IMF ARTICLES OF AGREEMENT.

9. ACCORDING TO THE WELT, SCHMIDT ALSO REPORTED THAT
THE C-20 FAVORS TO GIVE CENTRALBANKS THE RIGHT TO
SETTLE BALANCES AMONGST EACH OTHER IN GOLD AND AGREE
ON THE PRICE OF THE GOLD ON A CASE BY CASE BASIS.
IN ADDITION CENTRAL BANKS SHALL BE PUT INTO THE
POSITION TO BUY AND SELL GOLD ON THE FREE MARKET.

10. THE WELT REPORTS THAT UNDER SECRETARY VOLCKER
WAS MUCH LESS OPTIMISTIC IN HIS COMMENTS TO THE
PRESS THAN SCHMIDT. VOLCKER CHARACTERIZED THE
PROPOSALS AS A BASIS FOR DISCUSSION AND POINTED OUT
THAT NO SOLUTION WAS AS YET IN SIGHT ON THE QUESTION
OF DOLLAR CONSOLIDATION, CONTROL OF SHORT-TERM CAPITAL
MOVEMENTS AND OF THE LINK.

11. IN A SEPARATE EDITORIAL THE WELT TAKES SCHMIDT TO
TASK FOR TRYING TO TAKE UNDUE CREDIT AT HAVING BROKEN

THE DEADLOCK WITH THE GERMAN COMPROMISE PROPOSAL WHICH REALLY GAVE THE US EVERYTHING IT WANTED. IT CONTRASTS SCHMIDT'S GREAT OPTIMISM WITH THE GREATER RESTRAINT SHOWN BY VOLCKER AND OTHERS.

12. THE HANDELSBLATT REPORTING HEADLINES THE NARROWING OF DIFFERENCES BETWEEN EUROPE AND THE US AND UNCLASSIFIED

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THE NEGATIVE PENALTY INTEREST RATES FOR SURPLUS COUNTRIES. IT STRESSES THAT SIGNIFICANT PROGRESS WAS APPARENTLY MADE IN WASHINGTON AND THAT BOTH EUROPE AND THE US SHOWED READINESS TO COMPROMISE.

13. OTHER PAPERS FOLLOW SIMILAR LINES, STRESSING APPARENT PROGRESS BUT EXPRESSING SKEPTICISM WHETHER SCHMIDT'S TIME SCHEDULE CAN BE REALIZED. MANY PAPERS REPORT THAT UNDER SECRETARY VOLCKER WAS MUCH MORE RESTRAINED IN THE OPTIMISM OF HIS COMMENTS THAN FINANCE MINISTER SCHMIDT. IN GENERAL THE GERMAN PRESS SO FAR GIVES RELATIVELY LITTLE CREDIT TO SCHMIDT FOR HIS COMPROMISE PROPOSAL AND PUTS GREATER STRESS ON THE READINESS OF SECRETARY SHULTZ AND GISCARD TO COMPROMISE.
HILLENBRAND

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